

Message Text

UNCLASSIFIED

PAGE 01 PARIS 24936 01 OF 02 212018Z

72

ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-03 USIA-15 PRS-01 MBFR-04 L-03 H-03

SEC-03 DRC-01 /170 W

----- 030251

R 211915Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3400

INFO USMISSION BRUSSELS

USMISSION OECD UNN

UNCLAS SECTION 1 OF 2 PARIS 24936

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRENCH BUDGET FOR 1974: TAX PROVISIONS PROVIDE SEVERAL INNOVATIONS

1. SUMMARY: WHILE MAGNITUDE AND EXPENDITURES IN GOF 1974 BUDGET ARE ORTHODOX AND OFFER FEW SURPRISES, TAX PROVISIONS SHOW INNOVATIONS IN BOTH CONTENT AND PRESENTATION. NEW MEASURES ARE DIVIDED INTO TWO CATEGORIES - THOSE HAVING BUDGETARY INFLUENCE AND HENCE INCLUDED IN REGULAR PRESENTATION AND THOSE CONSIDERED BUDGETARILY "NEUTRAL" AND INCLUDED IN SPECIAL AND SEPARATE "CORRIGENDUM" ON FISCAL JUSTICE AND MODERNIZATION. LATTER MEASURES INVOLVE SHIFTING ONE PERCENT OF TAX BURDEN, SOME TWO BILLION FRANCS IN DIRECT TAXES, FROM AGED AND LOW INCOME GROUPS TO CORPORATIONS AND TO HIGHER INCOME GROUPS. LEGISLATION IS PROPOSED TO COMBAT ILLEGAL USE OF TAX HAVENS. "MODERNIZATION" REPRESENTED BY INSTITUTION, BEFORE JANUARY 1978, OF WITHHOLDING TAX ON WAGES SYSTEM, WHICH WOULD BRING FRENCH PRACTICE IN LINE

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 24936 01 OF 02 212018Z

WITH ITS EC PARTNERS AND OTHER MAJOR NATIONS. NEW MEASURES

CLEARLY AN EFFORT TO ENHANCE IMAGE OF GOVERNMENT AND FINANCE MINISTER GISCARD, AND ARE IN LINE WITH LATTER' S LONG-AVOWED POLICY OF MAKING DIRECT TAX BURDEN MORE ACCEPTABLE TO FRENCHMEN. WHILE REDUCTION OF VALUE-ADDED TAX (TVA) AND ITS MAJOR PART IN GOVERNMENT REVENUES MAY BE EVENTUAL GOAL THESE POLICIES, NO MEASURES TO ACCOMPLISH THIS ARE INCLUDED IN NEW PROPOSALS. END SUMMARY.

2. GOF 1974 BUDGET PROPOSAL RELEASED SEPTEMBER 19 SHOWS TAX REVENUES FOR 1974 AT 205.4 BILLION FRANCS (EXCLUSIVE OF COLLECTIONS FOR THE EEC AND LOCAL GOVERNMENT AND EXCLUSIVE OF NON-TAX RECEIPTS). THIS REPRESENTS AN INCREASE OF 19.0 OVER REVISED ESTIMATES FOR 1973 RECEIPTS (186.4 BILLION), OR SLIGHTLY MORE THAN 10 PERCENT. RELATIVE TO ESTIMATED 1974 REVENUES UNDER 1973 LEGISLATION, THERE IS A HYPOTHETICAL LOSS THROUGH NEW LEGISLATION. AN ESTIMATED 2.105 BILLION FRANCS LOST THROUGH RAISING BASE EACH TAX BRACKET BY 6.5 PERCENT, WHICH COMPENSATES TAXPAYER FOR SOME OF DECLINE IN FRANCE'S PURCHASING POWER IN LAST YEAR. THIS IS PARTIALLY COMPENSATED BY INCREASES IN TAXES ON ALCOHOLIC BEVERAGES, AND HENCE ON TVA RECEIPTS ON SAME, EXPECTED TO PRODUCE 550 MILLION FRANCS IN NEW REVENUE.

3. IN SEPARATE DOCUMENT, CALLED "CORRIGENDUM" ON FISCAL JUSTICE (LETTRE RECTIFICATIVE DE JUSTICE FISCALE) GOF PROPOSES SERIES OF MEASURES, WITH A TOTAL TAX INCIDENCE OF 2.07 BILLION FRANCS, ABOUT ONE PERCENT OF TOTAL, DESIGNED TO SHIFT SOME OF TAX BURDEN FROM THE AGED AND OTHER LOW-INCOME GROUPS TO CORPORATIONS AND HIGHER INCOME GROUPS. BUDGETARILY NEUTRAL EFFECT OF THESE MEASURES IS EMPHASIZED BY INCLUSION IN SPECIAL DOCUMENT, AS IS EVIDENT POLITICAL SIGNIFICANCE. ACCOMPANYING TEXT NOTES THAT PASSAGE THESE MEASURES "WILL DRAW THE LINE BETWEEN THOSE CONTENT TO CALL FOR JUSTICE WITH THEIR VOICES, AND THOSE WHO HAVE UNDERSTOOD THAT THIS INVOLVES A STUBBORN DAILY EFFORT AT REDUCING INEQUALITY AND ENDING PRIVILEGE." MAJOR MEASURES (1974 TAX INCIDENCE IN MILLIONS OF FRANCS IN PARENTHESES, WHEN ESTIMATES PROVIDED BY GOF) INCLUDE:

A. PERSONAL INCOME TAXES:

(1) INCORPORATION INTO GENERAL TAX SCHEDULES (AND HENCE UNIVERSAL UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PARIS 24936 01 OF 02 212018Z

APPLICATION AND ENHANCED BENEFIT TO FAMILIES) OF MANY COMPLEX SPECIAL EXEMPTIONS AND DEDUCTIONS PROVIDED SINCE 1968, AND INTRODUCTION OF NEW BRACKET WITH FIVE PERCENT RATE (-1,020).

(2) INCREASE FROM 500 TO 2,000 FRANCS IN SPECIAL PERSONAL DEDUCTION FOR TAXPAYERS OVER 65 WITH 12,000 FRANCS YEARLY TAXABLE INCOME OR LESS; NEW 1,000 FRANC DEDUCTION FOR AGED WITH TAXABLE INCOMES BETWEEN 12,000 AND 20,000 FRANCS (-400).

(3) RAISING FROM 8,300 TO 10,000 FRANCS MAXIMUM YEARLY INCOME ON WHICH NO TAX DUE. THIS SHOULD REMOVE ONE MILLION PERSONS FROM TAX ROLLS (-250).

(4) LOWERING OF ALLOWABLE DEDUCTIONS FOR SOME 5 TO 10 THOUSAND HIGH-INCOME TAXPAYERS (0)7 20).

B. CAPITAL GAINS: SEVERAL TAX INCREASES INCLUDING:

(1) INCREASE FROM 10 TO 15 PERCENT OF RATE ON CORPORATE LONG-TERM GAINS, AND REDUCTION FROM TEN TO FIVE YEARS IN TIME LIMIT FOR INCLUSION IN TAXABLE PROFITS OF CAPITAL GAINS RESULTING FROM MERGERS (PLUS 380).

(2) INCREASE FROM FIVE TO TEN YEARS OF OWNERSHIP REQUIREMENT FOR EXEMPTION FROM CAPITAL GAINS TAX ON PROPERTY SALES (EXCEPT PERSONAL RESIDENCES).

(3) INCREASE FROM 25 TO 33-1/3 PERCENT, ON OPTIONAL FLT RATE ON INTEREST OTHER THAN BOND INTEREST (WHICH REMAINS AT 25 PERCENT).

(4) INCREASE FROM 30 TO 33-1/3 PERCENT OF FLAT-RATE TAX ON CONSTRUCTION PROFITS.

(5) LIMIT TO 20,000 FRANCS PER YEAR ON AMOUNTS THAT CAN BE PUT INTO APPROVED SAVINGS PLANS EARNINGS ON WHICH ARE EXCLUDED FROM TAXABLE INCOME.

(6) INCREASE FROM 8 TO 15 PERCENT IN TAX ON CAPITAL GAINS MADE THROUGH SALES OF SHARES IN OWN ENTERPRISES BY COMPANY HEADS.

C. OTHER MEASURES AFFECTING CORPORATIONS:

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 PARIS 24936 01 OF 02 212018Z

IRWIN

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 PARIS 24936 02 OF 02 212035Z

ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-03 USIA-15 PRS-01 MBFR-04 L-03 H-03

SEC-03 DRC-01 /170 W

----- 030417

R 211915Z SEP 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3401

INFO USMISSION BRUSSELS

USMISSION OECD

UNCLAS SECTION 2 OF 2 PARIS 24936

(1) GRADUAL REDUCTION TAX-EXEMPT RESERVE FOR INVESTMENT THAT COMPANIES CAN NOW SET UP UNDER MANDATORY EMPLOYEE PROFIT-SHARING PROGRAM. AT PRESENT COST OF "PROFIT SHARING" IS BORNE ENTIRELY BY FRENCH TREASURY AS COMPANIES ARE EXEMPT FROM 50 PERCENT CORPORATION TAX NOT ONLY ON AMOUNT SHARED BUT ON EQUIVALENT AMOUNT PLACED IN RESERVE FOR INVESTMENT. AFTER 1976, COST OF PROFIT SHARING WILL BE BORNE 75 PERCENT BY TREASURY AND 25 PERCENT BY CORPORATIONS (PLUS420).

(2) ALIGNMENT OF TAXATION OF RESERVES OF INSURANCE COMPANIES WITH THAT APPLICABLE TO BANKS (PLUS100).

(3) ABOLITION WITHIN THREE YEARS OF TANTIEMES. 94 5-/-FREE FEES TO COMPANY DIRECTORS. THIS REQUIRES SEPARATE LEGISLATION.

(4) CORPORATE LOSSES WILL ONLY BE DEDUCTIBLE FROM GAINS MADE IN RELATED ACTIVITIES.

D. INHERITANCE TAXES:

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 24936 02 OF 02 212035Z

(1) ABOLITION OF EXEMPTION FROM INHERITANCE TAXES ON NEWLY CONSTRUCTED PRIVATE DWELLINGS WHEN SUCH DWELLINGS ARE COMPLETED AND ACQUIRED AFTER OCTOBER 1, 1973. HERETOFORE, AS REGARDS DWELLINGS CONSTRUCTED SINCE 1947 FIRST TRANSFER OF OWNERSHIP THROUGH INHERITANCE OR GIFT WAS TAX EXEMPT (PLUS100).

(2) RECALL OF 1952-58 PINAY GOLD-GUARANTEED BONDS (SEPTTEL). THESE BONDS, EXEMPT FROM INHERITANCE TAXES, WERE A MAJOR AND CONTRO-

VERSIAL TAX LOOPHOLE (PLUS400).

(3) INCREASE FROM 100,000 TO 150,000 FRANCS IN DEDUCTION
TAXABLE LEGACY FOR HEIRS IN DIRECT LINE AND INSTITUTION OF A 10,000
FRANC DEDUCTION FOR OTHER HEIRS (-400).

E. OTHER:

INCREASE IN STAMP DUTIES (PLUS 250).

4. NEW MEASURES ALSO ANNOUNCED FOR PREVENTION OF TAX EVASION. AS
PART OF "FISCAL JUSTICE,"
GOD ANNOUNCED APPLICATION OF CONTROLS
ON TAX HAVENS SIMILAR TO THOSE EXERCISED IN FRG AND BELGIUM.
HENCEFORTH, PAYMENTS BY FRENCH RESIDENTS TO "TAX HAVENS" WILL HAVE
TO BE JUSTIFIED AS CORRESPONDING TO "REAL" OPERATIONS. THIS AND
OTHER MEASURES AGAINST ILLEGAL TAX EVASION ARE PREDICTED TO PRODUCE
NO LESS THAN FIVE OR SIX BILLION FRANCS IN ADDITIONAL REVENUES.

5. A SYSTEM FOR MANDATORY WITHHOLDING INCOME TAX PAYMENTS IS TO
BE FULLY IN PLACE BY JANUARY 1978.
THIS WILL HARMONIZE FRENCH PRACTICE WITH THAT OF OTHER EC PARTNERS
(EXCEPT ITALY) AND MAJOR NATIONS (WITH THE DIVERSE CRITICS OF MEASURE
IN MIND, GISCARD CITED BOTH U.S. AND USSR AS EXAMPLES), AND FURTHER
REDUCE POSSIBILITIES, OR TEMPTATION, TO TAX EVASION. SYSTEM OF VOLUN
TARY
MONTHLY PAYMENTS IS IMMEDIATELY EXTENDED TO THIRTY ADDITIONAL
DEPARTEMENTS, MAKING IT AVAILABLE TO 80 PERCENT OF FRENCH TAX-PAYERS.
MANDATORY WITHHOLDING SYSTEM, WHICH IN MAY 1968 THEN PRIME MINISTER
POMPIDOU PROMISED NOT TO IMPOSE, HAS ALREADY DRAWN FIRE FROM EMPLOYEE
GROUPS.

6. COMMENT: NEW MEASURES ARE CLEARLY IN LINE WITH FINANCE
MINISTER GISCARD'S LONG-STANDING STATED POLICY OF RECONCILING
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PARIS 24936 02 OF 02 212035Z

FRENCHMEN WITH THEIR DIRECT TAX BURDEN. MEASURES FAVORING THE AGED AND

THOSE WITH LOWER INCOMES AT EXPENSE OF CORPORATIONS AND PRESUMABLY
WEALTHIER BENEFICIARIES OF PINAY LOAN, SPECIAL RATES ON CAPITAL
GAINS, AND TAX HAVENS SHOULD BE POPULAR WITH MANY VOTERS, BUT
NOT NECESSARILY IN MAJORITY'S NATURAL CONSTITUENCY. WITHHOLDING TAX
AND MEASURES AFFECTING REAL ESTATE INVESTMENT, POPULAR IN FRANCE,
WILL BE PARTICULARLY CONTROVERSIAL. MANY CRITICS ALSO POINT OUT THAT
NEW MEASURES DO NOTHING TO INCREASE PROPORTION OF GOVT REVENUE
DERIVED FROM DIRECT TAXES. IN FACT, WITH NO CHANGE IN TVA AND
INCREASES IN REVENUES FROM ALCOHOL AND STAMP TAXES, PERCENTAGE OF
TAX REVENUES DERIVED FROM DIRECT TAXATION UNDER
NEW BUDGET (38.25 PERCENT) IS SLIGHTLY LESS THAN IN REVISED 1973
REVENUE ESTIMATES OR HYPOTHETICAL 1974 ESTIMATES BASED ON 1973
LEGISLATION (38.91 AND 39.21 PERCENT, RESPECTIVELY).IRWIN

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, TAX LAW
Control Number: n/a
Copy: SINGLE
Draft Date: 21 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PARIS24936
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730918/aaaaanhw.tel
Line Count: 277
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 06 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Sep-2001 by reddocgw>; APPROVED <11 MAR 2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH BUDGET FOR 1974: TAX PROVISIONS PROVIDE SEVERAL INNOVATIONS
TAGS: EFIN, FR, (GISCARD)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005